Taking a luxury drive through our tax laws: three reasons to acquire outside of your entity

Rebecca Macdonald
Vincents Accountants
P: 3228 4036
www.vincents.com.au

It is a common misconception that a luxury motor vehicle should be acquired by a Doctor's medical company or trust.

This is not necessarily the case, and consideration should be given to the reasons and various tax consequences for purchasing a motor vehicle via such a business structure versus in an individual name.

Although it might make sense from an "asset protection" point of view to acquire a motor vehicle within your medical company or trust, the following reasons may make an acquisition within this entity less attractive:

• Luxury car limit - where the cost of a vehicle exceeds the luxury car limit (currently $57,466) depreciation claimed as a tax deduction in respect of the vehicle is limited to the extent of the luxury car limit multiplied by the applicable depreciation rate.

• Goods and services tax (GST) – a business that is registered for GST, is only entitled to claim an input tax credit on a motor vehicle up to the luxury car limit.

However, when a business sells a motor vehicle, it is required to remit GST on 1/11th of the sale price, and no GST limit is applicable to the sale proceeds. Following is an example of the potential out of pocket GST impact –

Description	Amount	Input Tax Credit	GST Payable
Purchase of a motor vehicle*	$400,000	$5,224	
Sale of motor vehicle	$280,000		25,455
Net GST Payable - out of pocket			$20,231
**Subject to the luxury car limit*			

• Fringe benefits tax (FBT) – although a full deduction can be claimed by the business for expenses incurred in running the motor vehicle that is owned or leased by a company or trust (note, the depreciation limitation noted above), fringe benefits tax may be payable where there is a private use component.

A log book should be kept for the required 12 week period to determine the appropriate business use percentage. If a log book is not kept, then the "Statutory formula" applies to impute a private use value based on the actual cost of the vehicle. In some instances this value could exceed the deductions claimed in respect of the vehicle.

Example: a Maserati owned by a medical company costing $400,000 does not have a log book completed. The statutory value of private use is deemed to be $80,000 per annum, despite the company only being able to claim depreciation of $14,367 (57,466 x 25%), interest on the loan of $20,000 and other running costs of $10,000 totalling $44,367. Effectively no vehicle expenses get claimed by the company and an additional amount of income (in this case a net $35,633) is taxable to the company.

If the Maserati was owned personally, the individual owner could claim the business proportion of costs noted above.

Although the above is an extreme example and list of issues to consider is not designed to be exhaustive, it highlights some of the adverse tax consequences of purchasing a luxury motor vehicle via your medical company or trust.

The most appropriate entity to purchase your luxury motor vehicle depends on each individual's circumstances. Should you wish to discuss this or any other taxation matters further, please contact our office to arrange an appointment.

Rebecca Macdonald is a Senior Manager in the Taxation and Business Solutions team at Vincents Chartered Accountants.

Emphasising the importance of forming solid relationships with her clients to deliver good taxation and business outcomes, Rebecca is an expert at assisting clients in the healthcare industry to grow and manage their business from initial set up through to maturity.